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SUBJECT: NEW LAW BANS FOREIGN TRADERS IN KYRGYZ MARKETS

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11. (SBU) Summary: A new Kyrgyz labor law bans foreign nationals from selling goods in the open-air markets. Coming on the heels of a similar restriction in Russia, the measure is scheduled to take effect on April 1. The State Committee on Migration and Employment claims the measure is an attempt to create more jobs for Kyrgyz citizens. The main target of the law appears to be Chinese traders and retailers, mostly in Osh and Jalalabad, but there are also Uzbek, Turkish, and other foreign nationals who could be affected by this measure. Some estimates put the number of foreign traders in Kyrgyzstan as high as 10,000. Some Kyrgyz sellers told us they welcome the new legislation, with the hopes of better economic opportunities or simply less competition. But, similar to a measure adopted in 2006 restricting the period that expatriates can work in Kyrgyzstan, this latest restriction raises questions about Kyrgyzstan's openness to trade and investment. End summary.

ON THE HEELS OF MOTHER RUSSIA?

12. (SBU) A Kyrgyz government decree, signed on January 12 and scheduled to take affect on April 1, bans foreign traders from working in any wholesale market. The law also limits to ten per cent the number of non-Kyrgyz citizens who can operate as retailers in shopping centers and supermarkets, and foreign retailers who fall within this quota will be required to pay approximately \$500 for re-registration. This new law appears to be modeled after recent Russian law limiting foreign traders, and some commentators have said that the intent is to eliminate all foreigners from the markets by the end of the year. According to several traders, the Russian law has already sparked an exodus of Kyrgyz traders back to Kyrgyzstan from Russia.

CHINESE MOST AFFECTED AND MOST WORRIED

13. (SBU) The number of Chinese traders operating in Kyrgyzstan, mainly in the southern cities of Osh and Jalalabad but also in Bishkek, has grown dramatically in recent years. Although most were aware of the new law, few Chinese traders we spoke to were knowledgeable about the details. Many were worried the new law would ruin their hopes of staying in Kyrgyzstan and developing their businesses. Fearing substantial losses, one seller told poloff that she has reduced the prices on much of her merchandise. With several hundred thousand dollars in Chinese products warehoused in Bishkek, she admitted it is an amount one "cannot just sell off overnight." Others are taking a wait and see approach, hoping that the Chinese government can influence the Kyrgyz government to modify the restrictions or threaten similar actions against Kyrgyz citizens operating in Chinese markets unless the law is revoked. Whether hopeful of compromise, fearful of economic ruin, or in an attempt to make a quick sale, all claimed to be reducing their stockpiles at deeply discounted prices.

APPARENT SUPPORT FOR THE LAW AMONG THE KYRGYZ

14. (SBU) Most Kyrgyz sellers seemed pleased that the law has the potential to create more jobs for fellow citizens. Grumbling that "it was about time our government was doing something about those (expletive) Chinese", some traders clearly expressed their animosity toward foreign traders operating in the local bazaars. Many Kyrgyz retail clerks viewed the new law with optimism, hoping to be offered more responsibility, and correspondingly, a higher salary as a result of the new limitations. Others speculated that in order to continue working in their retail establishment, foreigners will have to increase their staff to reach the

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nine to one ratio. Although some believed that distribution lines may somehow be affected or disrupted, everyone questioned felt that less competition is always welcome in the trade industry.

COMMENT

15. (SBU) While optimistic Kyrgyz traders see this new law as a step in the right direction to create more job opportunities, others view it as just another hurdle that foreigners will have to overcome with increased payments or bribes. If fully implemented, the measure could disrupt the supply lines into Kyrgyzstan for the inexpensive Chinese goods that fill the large open-air bazaars. And similar to a measure adopted in 2006 restricting the period that expatriates can work in Kyrgyzstan, this latest restriction raises questions about Kyrgyzstan's openness to trade and investment.
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